



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

August 23, 2007

Control Number  
ED-OIG/A09G0012

Lawrence Warder  
Acting Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
Union Center Plaza, Room 112G1  
830 First Street, NE  
Washington, D.C. 20202

Dear Mr. Warder:

This **Final Audit Report**, entitled *Department of Education's Oversight of the Free Application for Federal Student Aid Verification Process*, presents the results of our audit. The purpose of the audit was to determine if the U.S. Department of Education (Department) has adequate procedures for evaluating the effectiveness of the verification process and ensuring that schools complete verification requirements. Our review covered the period July 1, 2005, through June 30, 2006 (award year 2005-2006).

---

## **BACKGROUND**

---

Students apply for Federal student aid by completing a Free Application for Federal Student Aid (FAFSA), which is processed by the Central Processing System (CPS). The CPS uses the application information and the statutory needs analysis formula to calculate each applicant's expected family contribution (EFC). If the EFC is less than the student's cost of attendance, a student has a financial need and may be eligible to receive financial aid under the Higher Education Act of 1965, as amended (HEA), Title IV programs. Verification, which is required under Subpart E of 34 Code of Federal Regulations (C.F.R.) Part 668,<sup>1</sup> is one of the processes that the Department relies on to ensure that students and parents report accurate information on the FAFSA that is used in determining a student's eligibility for Federal student financial aid.

The CPS selects the applications for verification by the schools. For enrolled students who are selected for verification, the schools verify the accuracy of five items: adjusted gross income, U.S. income tax paid, household size, number of students in the household who are enrolled in

---

<sup>1</sup> C.F.R. citations in this report are from the July 1, 2005, edition.

college, and certain untaxed income benefits. Students must provide schools with income tax returns and other documents to support the reported information. A school has completed verification when it has either determined that the application items are correct or when the student or school has submitted corrected information to the CPS. The school must document the verification and maintain a CPS document in its files showing the student's final EFC.

When a school disburses grant funds for a student from the Federal Pell Grant Program, Academic Competitiveness Grant Program, or National Science and Mathematics Access to Retain Talent Grant Program, the school is required to report the verification status of the student's application to the Department's Common Origination and Disbursement (COD) system. As described in the *Federal Student Aid Handbook 2005-2006, Application and Verification Guide*, the verification status codes are—

- **V** – School completed verification of the student's application. This code is used for both applications selected by the CPS for verification and those the school chose to verify based on its own criteria.
- **S** – The CPS selected the student's application for verification, but the school did not verify the application information because 1) the school participates in the HEA, Title IV, Quality Assurance (QA) Program<sup>2</sup> and the student's application did not meet the school's verification criteria or 2) the school elected not to verify the student's application because the school reached the 30 percent threshold for required verifications.
- **W** – The CPS selected the student's application for verification and the school has elected to make an interim Pell Grant disbursement prior to completing the verification of the application information. The school updates the code to a **V** when verification is completed.
- **Blank** – Neither the CPS nor the school selected the student for verification.

Our prior audit of the Department's oversight of the verification process was issued on March 28, 2002. The report, titled *Effectiveness of the Department's Student Financial Aid Application Verification Process* (Control Number ED-OIG/A06-A0020), concluded that the Department generally had adequate controls over the development of the criteria used by the CPS to select applications for verification, but was not using data collected on the results of schools' verification to monitor the effectiveness of the verification process<sup>3</sup> or the extent to which schools complied with verification requirements. The report also concluded that the management information system (MIS) reports generated from the CPS and verification results reported by schools were not reliable. The review covered award year 1999-2000.

---

<sup>2</sup> Schools participating in the QA Program use their own criteria for selecting applications for verification that are tailored to their student population. QA schools are exempt from the requirement to verify 30 percent of student applications.

<sup>3</sup> At the time of the prior review, schools reported the results of verification to the Department's Recipient and Financial Management System (RFMS), which was replaced by the COD system. The RFMS required schools to use verification status codes that denoted the results of the verification process (i.e., data was accurate; incorrect data, but within tolerance limits; incorrect data that required recalculation of the EFC; etc.). The simplified coding used in the COD system does not provide information on the effectiveness of the verification process.

---

## AUDIT RESULTS

---

The Department has adequate procedures for evaluating the effectiveness of the verification process. A subcontractor under the Department's CPS contract performs an annual reassessment of the criteria used to select applications for verification, and the Department generates MIS reports from the CPS to evaluate the verification process. From our limited review, the MIS reports appeared reliable for that use. The Department also provides schools with tools to improve the effectiveness of their own procedures.

The Department has various procedures in place to ensure schools perform the required verification of FAFSA information.

- The Department has procedures for ensuring that schools have the knowledge and tools to perform verification. The Department provides information about verification requirements and procedures to schools on the Information for Financial Aid Professionals (IFAP) website, provides updated Verification Worksheets each year, and makes MIS reports available for schools to monitor completion of verification.
- The Department has procedures for confirming that schools completed the verification requirements. The COD system notifies schools when required verification has not been completed for the students that the school reported as having received Pell disbursements prior to the completion of verification. The Department also relies on program reviews conducted by Federal Student Aid (FSA) staff at schools participating in HEA, Title IV programs and had expanded coverage of verification in the Program Review Guide used by FSA to perform the on-site reviews. The required annual audits conducted by independent public accountants (IPAs) may also include coverage of verification.

However, these procedures could be improved and only provide a limited level of assurance that schools perform the required verification. As we previously disclosed in a September 2004 OIG audit report,<sup>4</sup> FSA performs few program reviews each year and some are focused reviews that may not cover schools' compliance with verification requirements. We also disclosed in the September 2004 report that FSA staff do not consistently follow the Program Review Guide and adequately document their work. In a March 18, 2004 memorandum,<sup>5</sup> we advised the Department of the limited reliance that can be placed on the IPA audits. The IPAs typically review few student records to test compliance with verification requirements and, in some cases, perform no such tests of student records. Also, government and non-profit entities that expend less than \$500,000 in Federal funds are not required to have annual audits.

---

<sup>4</sup> OIG report titled *Case Management & Oversight's Monitoring of Postsecondary Institutions* (ED-OIG/A04-D0014), issued September 2004.

<sup>5</sup> OIG Interim Audit Memorandum, Student Financial Assistance No. 04-02, dated March 18, 2004.

The September 2004 audit report provided the Department with recommendations to address noted weaknesses in the FSA program review procedures. During this audit, we identified three additional areas in which the Department could further enhance its procedures for ensuring that schools perform the required verification of FAFSA information. The three areas are presented in the below finding.

We have also provided a comprehensive summary of the Department's procedures for evaluating the effectiveness of the verification process and for ensuring that schools complete verification requirements as Attachment 1 to this report.

We received your comments concurring with the finding and recommendations. The comments are summarized at the end of the finding and the full text of the comments is included as Attachment 2 to this report.

### **FINDING – Department Could Further Enhance Procedures for Ensuring Schools Complete Verification Requirements**

The Department could enhance its procedures for ensuring schools complete verification requirements by developing MIS reports to identify schools in need of technical assistance or monitoring, requiring schools to report verification status for exempt students in a consistent manner, and revising the COD Technical Reference to clarify its explanation of "optional" fields.

#### **Development of MIS Reports to Identify Schools in Need of Technical Assistance or Monitoring**

In our prior audit of the Department's oversight of the verification process, we recommended that the Department conduct an analysis of the verification data schools reported and, based on the results of that analysis, perform reviews or provide technical assistance to schools that reported questionable verification results or that are not performing the required number of verifications. In response to the recommendation, FSA completed an analysis of changes in FAFSA information reported to CPS, reported verification status, and other information to identify schools for program reviews. The 38 schools reviewed by FSA were selected, in part, due to questionable CPS or verification data. For the 16 of these schools that were selected, in part, due to reported verification data, FSA found that 8 of the 16 schools (50 percent) had major verification findings. The Department did not use the results of its analysis to develop MIS reports for identifying schools for future review or technical assistance.

As noted in our March 2002 report and demonstrated by FSA's findings from its program reviews, MIS reports generated from Department databases can be useful in identifying schools in need of technical assistance or monitoring. From our current audit's analyses of information in the Department's databases for the 2005-2006 award year and from our reviews at schools

selected from those analyses,<sup>6</sup> we identified three risk factors to detect schools that were not properly reporting verification statuses to the COD system: 1) a high percentage of a school's students with a status code of **S** for applications that were selected by the CPS for verification; 2) a high number of a school's students with a status code of **S** for applications that were not selected by the CPS for verification; and 3) a high number of a school's students with a blank status for applications that were selected by the CPS for verification.

High Percentage of Students With a Status Code of **S**. From information in Departmental databases, we computed, for each school, the percentage of students with applications selected by the CPS for verification that had a verification status code of **S**. Our reviews at two schools with high percentages found that the schools accurately completed the verification of the student applications, but that the schools had not properly reported the student's verification status to the COD system. At one school, the school's computer software automatically defaulted the status to **S** for students selected by the CPS for verification and school staff did not change the code to **V** prior to transmitting information to the COD system.<sup>7</sup> The other school's software improperly entered a verification status of **S** in the information transmitted to the Department when the school sent a correction on the student application to the CPS. When the school subsequently transmitted the verification status using an outdated status code, the status did not update from an **S** to a **V** in the COD system.<sup>8</sup>

High Number of Students With a Status Code of **S** Whose Applications Were Not Selected for Verification. From information in Departmental databases, we computed, for each school, the number of students with a verification status code of **S** whose applications had not been selected by the CPS for verification. Our review at one school with a high number of such students found that the **S** status codes had been improperly recorded. The school, which used the Department's EDEExpress software to transmit information to the COD system, was unable to identify how its use of the software resulted in the improper reporting. The school advised us that it now uses the COD system website rather than EDEExpress to transmit information to the Department.<sup>9</sup>

High Number of Students With a Blank Status Code. From information in Departmental databases, we computed for each school the number of students with applications selected by the CPS for verification that had a blank verification status code. Our reviews at two schools that had a high number of such students found that the schools had not properly reported the completed verification. One school did not include the verification status code in its submissions to the COD system because the COD Technical Reference, dated August 2005, identified the

---

<sup>6</sup> We conducted audits at nine schools. We reported findings in the individual audit reports for six of these schools. Five of the six schools with findings are identified in the footnotes in this section of the report. At the remaining school, we concluded that the school generally completed the required verification of applications selected by CPS, but the school had not complied with the requirement to have written policies and procedures for the verification process. The Objective, Scope, and Methodology section of this report provides a list of the nine schools reviewed and the associated risk factor that was the basis for selecting the school.

<sup>7</sup> Final report titled *ATI Technical Training Center's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid* (Control Number ED-OIG/A09G0029), dated March 26, 2007.

<sup>8</sup> Final report titled *School of the Art Institute of Chicago's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid* (Control Number ED-OIG/A09G0027), dated March 26, 2007.

<sup>9</sup> Final report titled *Morton College's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid* (Control Number ED-OIG/A09G0026), dated March 26, 2007.

verification status code as an optional data field.<sup>10</sup> At the other school, staff omitted a final step in the school's procedures that would have updated the students' verification status from blank to V.<sup>11</sup>

The school reviews conducted as part of this audit confirmed that the above three risk factors were reliable indicators for identifying schools in need of technical assistance or monitoring. In fact, we identified findings at each school that was selected using these risk factors.<sup>12</sup> Our analyses of Department information for award year 2005-2006 identified additional schools that met these risk factors. We provided the Chief Compliance Officer, Program Compliance, FSA with a list of the identified schools in a memorandum, dated May 2, 2007. Program reviews, technical assistance, or other actions are needed to ensure that the listed schools, and schools meeting these risk factors in subsequent award years, are completing verification and accurately reporting verification results to the Department.

### **Consistent Status Reporting for Students Who Are Exempt From Verification Requirements**

Consistent use of a verification status code for students who are exempt from verification requirements would improve the accuracy of the Department's databases and MIS reports on student verification statuses that are generated from the databases. In general, unless the school has reason to believe that the information provided is incorrect, schools are not required to complete verification requirements for incarcerated students, recent immigrants, Pacific Island residents, deceased students, dependent students whose parents are unavailable, students whose applications were verified by another school, or students who are not Title IV aid recipients (34 C.F.R. § 668.54(b)). In an electronic announcement, posted March 9, 2006, on the IFAP website, the Department advised schools to report an S or a blank when the "school has not completed verification because it was not required to do so in accordance with exclusions from verification provided for in 34 CFR 668.54(b)."

The Department's *Federal Student Aid Handbook 2005-2006, Application and Verification Guide* instructs schools to report a verification status of S when the CPS selected the student's application for verification, but the school did not verify the application information because the school reached the 30 percent threshold for required verifications or, in the case of a QA school, the student's application did not meet the school's verification criteria. However, the Guide does not include an exemption from the verification requirements as one of the acceptable reasons for not performing verification in the definition of the S code. The Guide instructs schools to report a blank when neither the CPS nor the school selected the student for verification. To provide for consistent reporting and for consistency with the Guide definitions, schools should report a verification status of S for students whose application was selected by CPS for verification, but the verification was not completed because the student was exempt from the requirement.

---

<sup>10</sup>Final report titled *East Carolina University's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid* (Control Number ED-OIG/A09G0033), dated March 26, 2007.

<sup>11</sup> Final report titled *Cerritos Community College's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid* (Control Number ED-OIG/A09G0023), dated March 26, 2007.

<sup>12</sup> Five of the nine schools we audited were selected using one of the three risk factors. The audits at each of these five schools identified one or more findings related to verification.

## **Clarification of “Optional” Fields Needed In COD Technical Reference**

The COD Technical Reference is an operational guide that informs schools how to transmit data to the COD system and provides the record layout and data elements required to successfully process submitted records (referred to as the Common Record). The Common Record layout table in the COD Technical Reference lists the element requirements for various business processes covering Pell Grants and other Title IV program activities. The table shows the verification status code as an optional element for Pell Grants. The COD Technical Reference, Volume II, Section 3 - Common Record Layout states that “[a] field is considered [o]ptional when it is not required in all business processes; however it may be required in some business processes.” The section titled “Reporting Verification Status Code” states “[v]alid values for the Verification Status Code tag are: ‘W’, ‘S’, or ‘V’ or the Verification Status Code tag may be omitted from the Common Record.” As noted in an earlier section of this report, one school mistakenly did not report the verification status for its students because the COD Technical Reference indicated that the verification status code was “optional.”

The explanation of “optional” fields in the COD Technical Reference needs to be clarified to ensure that schools include the verifications status code and other required information in their reported data. Department staff advised us that the “optional” designation means that the school does not need to enter data in the field for the transaction to be successfully processed by the COD system. For example, the COD system will process a transaction when the school leaves the verification status code “blank” because the student’s application was not selected by either CPS or the school for verification. Department staff further stated that they did not intend for schools to interpret the cited sections in the COD Technical Reference to mean that the verification status code field was not a required field in the Common Record. The wording in the COD Technical Reference needs to be revised to clearly communicate required fields in the Common Record versus fields that do not require an entry for successful processing by the COD system.

## **Recommendations**

We recommend that the Acting Chief Operating Officer for FSA—

- 1.1 Conduct program reviews, provide technical assistance, or take other actions to ensure that the schools we identified in our May 2, 2007 memorandum have completed verification and have accurately reported the results to the Department.
- 1.2 Using risk factors similar to those we described in the finding, develop MIS reports to periodically identify and monitor schools that may not have completed or accurately reported the results of their verification of FAFSAs to the Department, and provide technical assistance to those schools, conduct a program review, or take other appropriate action.
- 1.3 Require schools to report an **S** status to the COD system for a student whose application was selected by CPS for verification, but the verification was not completed because the student was exempt under 34 C.F.R. § 668.54(b).

- 1.4 Clarify the explanation of “optional” fields in the COD Technical Reference and review the COD Technical Reference and make any other needed revisions to ensure the guide clearly communicates required fields in the Common Record versus fields that do not require an entry for successful processing by the COD system.

### **FSA’s Comments**

FSA concurred with the finding and recommendations and provided a corrective action plan to address each recommendation:

- Recommendation 1.1. FSA plans to generate reports from the COD system to analyze data used to conduct the audit. Based on FSA’s analysis of the COD reports and the OIG’s data analysis, FSA plans to take the appropriate action warranted for the schools identified in the audit, such as contacting the school, providing technical assistance, and conducting off-site or on-site program reviews.
- Recommendation 1.2. FSA stated that its new Integrated Partner Management System (IPM) is currently in development and includes in its module a verification risk indicator. FSA added that the IPM will use risk factors which are similar to those described in the finding. Until IPM is implemented, FSA plans to develop MIS reports to identify and monitor schools that may not have completed verification or accurately reported the results of the verification process.
- Recommendation 1.3. FSA plans to clarify the exemption requirements under 34 C.F.R. § 668.54(b). FSA stated that guidance to schools will reflect the requirement that schools must report an S status in COD for students whose application was selected for verification by the CPS but not verified because of the student’s exemption.
- Recommendation 1.4. FSA plans to review and edit the COD Technical Reference Guide to clarify the definition of “optional” reporting of the Verification Status Code. FSA stated that the Implementation Guide of the Technical Reference will clearly state that the reporting of a verification status is required.

---

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

---

Our audit objective was to determine if the Department had adequate procedures for evaluating the effectiveness of the verification process and ensuring that schools completed verification requirements for award year 2005-2006. This was a follow up to our audit titled *Effectiveness of the Department’s Student Financial Aid Application Verification Process* (Control Number ED-OIG/A06-A0020), issued March 28, 2002. Since the prior audit concluded that the Department generally had adequate controls for developing targeted selection criteria, we did not include that area in our evaluation of Department procedures.



To accomplish our objective, we gained an understanding of—

- Laws and regulations covering the verification requirements.
- Guidance contained in the Department’s *Federal Student Aid Handbook 2005-2006, Application and Verification Guide*.
- Department policies, procedures and processes related to verification.
- Aspects of the CPS and COD system that related to identifying applications selected for verification and reporting of student verification status.
- Studies that provided information on the effectiveness of the verification process.

We also performed the following activities:

- Interviewed Department officials and contractor and subcontractor staff for the CPS.
- Identified and reviewed MIS reports to assess whether the reports provided information for evaluating the effectiveness of the verification process and reporting of verification status.
- Reviewed the Department’s records on focused program reviews that it conducted at targeted schools.
- Reviewed segments of FSA’s program review procedures covering verification.
- Reviewed segments of the Office of Management and Budget (OMB) Circular A-133, *March 2006 Compliance Supplement*.

To evaluate the adequacy of the Department’s procedures, we performed reviews of verification procedures at nine schools that were selected based on a risk analysis of information contained in Department databases. At each school, we obtained background information, interviewed school officials, reviewed schools’ written policies and procedures, and reviewed student financial aid files for selected students.

<b>Table: Schools Reviewed by the Office of the Inspector General (OIG) and Related Risk Factor</b>		
<b>ED-OIG/ Control Number</b>	<b>School</b>	<b>Risk Factor</b>
A09G0023	Cerritos Community College	3
A09G0026	Morton College	2
A09G0027	School of the Art Institute of Chicago	1
A09G0028	Boston College	5
A09G0029	ATI Technical Training Center	1
A09G0030	Technical Career Institutes	4
A09G0031	The College of New Rochelle	4
A09G0032	American University of Puerto Rico	4
A09G0033	East Carolina University	3
<b>Risk Factors:</b> 1 – High percentage of applications selected by the CPS for verification that had a verification status code of S. 2 – High number of students with a verification status code of S whose applications had not been selected by the CPS for verification. 3 – High number of students with applications selected by the CPS for verification that had a blank verification status code. 4 – High percentage of applications selected by the CPS for verification that had no application changes submitted to the CPS. 5 – High percentage of applications selected by the CPS for verification that had four or more application changes submitted to the CPS.		

We relied on information extracted from the CPS and the Department's National Student Loan Data System (NSLDS) to identify the schools with the risk factors. To assess the completeness of the extracted information, we compared totals from the CPS and NSLDS. We concluded that the extracted information was sufficiently reliable for use in selecting the schools to be reviewed.

We conducted our fieldwork at the Department in Washington, DC, in April 2006. Our exit conference was held on May 2, 2007. We conducted fieldwork at the nine schools over the period from July through September 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

---

## ADMINISTRATIVE MATTERS

---

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED policy requires that you develop a final CAP for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions of the finding and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Gloria Pilotti at (916) 930-2399.

Sincerely,

*/s/ for Richard T. Rasa*

George A. Rippey

Acting Assistant Inspector General for Audit

Attachments

## ATTACHMENT 1

### **Summary of Department's Procedures for Evaluating Effectiveness and Ensuring Compliance with Verification Requirements**

The Department's procedures for evaluating the effectiveness of the verification process and for ensuring that schools complete verification requirements are summarized in this attachment.

#### **Procedures Used by the Department for Evaluating Effectiveness of the Verification Process**

CPS Subcontractor Performs Annual Reassessment of Selection Criteria. In the 2003-2004 award year, CPS began selecting applications for verification using criteria designed to identify questionable information provided by applicants that could lead to over-awards of Federal student financial aid. Each criterion is given a value. The values for the criteria met by an application are summed to derive an overall score for the applicant. CPS selects applications for verification that meet or exceed a specified applicant cutoff score.

Annually, a CPS subcontractor performs an analysis to assess the effectiveness of the past year's criteria. The subcontractor selects and reviews applications that contain changes made after the student submitted the original FAFSA information. After receipt of subcontractor's analysis and recommended changes to the criteria, the Department authorizes changes in the CPS selection criteria for the next award year.

MIS Reports Generated from the CPS Are Used to Evaluate the Verification Process. The CPS generates two standard MIS reports that provide information to evaluate the effectiveness of the verification process:

- Report COM 5, "EFC Changes by Range – YTD Verification," provides statistics on the effect that corrections to the FAFSA had on the EFC for applications selected for verification. Department staff advised us that the CPS subcontractor uses this report during the annual analysis of the selection criteria.
- Report COM 6, "Applicant Verification Selection Report," is used by the CPS subcontractor to assess whether the overall score for criteria used in the CPS will result in 30 percent of applications being selected for verification as required by 34 C.F.R. § 668.54(a)(2)(i).

#### **Procedures Used by Schools for Evaluating Effectiveness of Their Verification Process**

Verification Tracking Flag Made Available to Schools. To enhance the effectiveness of the verification process at the school level, the Department added the overall score for criteria ("Verification Tracking Flag") to the institutional student information record (ISIR) provided to schools. In the *Federal Student Aid Handbook 2005-2006, Application and Verification Guide*, the Department advised schools that the Verification Tracking Flag could help them choose,

among applicants selected for verification, those who have potentially made the most significant errors on their FAFSA.<sup>13</sup>

Verification Tool and ISIR Analysis Tool Are Available to Schools. The Department also developed the Verification Tool and ISIR Analysis Tool to enhance the effectiveness of verification at the school level.

- The Verification Tool can be used by schools to compare information on an individual student's ISIR with information on the Verification Worksheet completed by the student. The tool identifies the differences between ISIR and Worksheet, identifies corrections needed, and can electronically transmit changes to the CPS. The CPS will then send an updated ISIR to the school reflecting the changes.
- The ISIR Analysis Tool can be used by schools to analyze batches of student applications to identify changes that most commonly impact students' EFC and Pell Grant eligibility. QA schools are required to use the ISIR Analysis Tool, and FSA makes this tool available to all schools.<sup>14</sup> By identifying ISIR data fields and the types of students most likely to experience a change in EFC, QA schools obtain information that can help them fine tune their verification selection criteria. Non-QA schools can also benefit from the tool by being aware of the type of errors that may result in over-awards.

### **Procedures for Ensuring That Schools Have the Knowledge and Tools to Perform Verification**

Schools Have Access to the IFAP Website. The Department provides a comprehensive website to help schools administer Title IV programs. The IFAP website provides links to laws, regulations, training and other guidance that include segments on the verification process. The website also provides a link to SFA Assessments, a tool to assist schools in performing self-assessments including reviewing their verification procedures.

Updated Verification Worksheets Are Available Each Year. The Department makes verification worksheets available to schools for use in performing verification requirements. When a student completes and signs the worksheet and attaches the appropriate tax forms or alternative documentation, the school will usually have the needed information to complete the verification. Separate worksheets are provided for dependent and independent students. The Department reissues the worksheets each year to reflect current requirements.

---

<sup>13</sup> Schools may not be using the Verification Tracking Flag to select applications for verification. A CPS subcontractor found that the schools in a study it conducted verified all applications selected for verification for students enrolled at their schools. Our reviews at nine schools had similar findings. Seven of the nine schools we reviewed verified all applications selected by the CPS for verification for students enrolled at their schools and one school verified all applications for enrolled students. The remaining school had a written policy stating the school would verify 30 percent of applications received, but school officials stated that the school verified most, if not all, applications selected by the CPS.

<sup>14</sup> None of the nine schools we reviewed used the ISIR Analysis Tool.

MIS Reports Are Available for Schools to Monitor Their Completion of Verification. Three MIS reports generated by the COD system are available for schools to monitor their completion of verification requirements.

- The Verification Status Report is automatically sent to schools on a monthly basis to bring to their attention those individual students that have received a Pell Grant disbursement, but the school has not reported that verification was completed. The report lists students with a verification status code of blank or **W** whose applications were selected by the CPS for verification.
- The Reconciliation Report, which schools may request on an as-needed basis, provides individual student information that schools can use to confirm that student information recorded in their school records has been accurately recorded in the COD system. One of the items in the report is the student's verification status.
- The Year-To-Date Record Report can be requested for one or all Pell Grant recipients at the school and contains detailed award and disbursement data at the transaction level in the COD system. Like the Reconciliation report, it can be used to reconcile the school's records with data in the COD system.

### **Procedures for Ensuring That Schools Have Properly Completed Verification Requirements**

COD System Process for Notifying Schools When Required Verification Is Not Completed for Students Who Received Disbursements. Periodically, the Department has the COD system send schools a list of students with a status code of **W** and a warning that the school must take action to complete verification (if not already completed) and update the student's verification status in the COD system.<sup>15</sup> If the school does not update the verification status by a specified date, the COD system reduces the student's disbursement amount to zero. The school cannot make any subsequent disbursement for the student until the verification status is updated. On April 6, 2006, the Department used the **W** Deobligation Process to reduce Pell Grant disbursements at 387 schools for a total of 2,153 students and about \$2.9 million.

Program Review Guide Contains Expanded Coverage of Verification. Department staff perform program reviews at schools participating in HEA, Title IV programs. Reviewers may perform a full program review or a focused review on specific areas, such as verification.<sup>16</sup>

FSA's Program Review Procedures, issued September 8, 2006, contain a section on verification, which instructs reviewers to evaluate school policies and procedures. Also, as part of the

---

<sup>15</sup> As noted in the Background section of this report, **W** is an interim verification status. Schools report a verification status of **W** when the school has elected to make a Pell Grant disbursement prior to completing verification. The school updates the code to a **V** when verification is completed or an **S** if the student fails to complete verification.

<sup>16</sup> FSA performs only a limited number of program reviews each year. Over 6,000 schools participated in the Title IV programs in 2005-2006. During that year, FSA performed program reviews at 130 schools. Also, as mentioned in the AUDIT RESULTS section of the report, the OIG has identified weaknesses in the program review procedures.

program review, the reviewer is instructed to review school records for a sample of students. The reviewer needs to ensure that the sample includes at least two students that were selected by CPS for verification. The program review procedures provide criteria under which the reviewer is required to expand the sample when errors are identified.

Annual Audits Provide Coverage of Verification. Institutions participating in Title IV programs have annual audits performed by an IPA. OMB Circular A-133 requires public and nonprofit entities expending more than \$500,000 in Federal funds to have annual audits. Appendix B of the Circular contains the Compliance Supplement, which provides guidance for conducting the audits. The Compliance Supplement instructs the IPA to review the institution's policies and procedures for verifying applications and to review a sample of applications that were selected for verification to ascertain that the school appropriately completed the verification.<sup>17</sup>

Schools that are not covered under OMB Circular A-133 are required to have audits performed by IPAs in accordance with our Audit Guide, titled *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. The guide instructs IPAs to review a school's procedures for determining student eligibility and review a random sample of student files to confirm the student met eligibility requirements, including that the student has provided all necessary documentation to complete verification, if applicable (i.e., the student's application was selected by CPS for verification). We plan to expand coverage of verification in an upcoming revision to the guide.

---

<sup>17</sup> As mentioned in the AUDIT RESULTS section of the report, the OIG has advised the Department that the reliance that can be placed on audits conducted by IPAs is limited.

## **ATTACHMENT 2**

### **FSA's Comments to the Draft Report**



CHIEF OPERATING OFFICER

AUG 1 2007

TO: George A. Rippey  
Acting Assistant Inspector General for Audit  
Office of Inspector General (OIG)

FROM: Lawrence A. Warder /s/  
Acting Chief Operating Officer  
Federal Student Aid

SUBJECT: Response to Draft Audit Report – *Department of Education's Oversight of the Free Application for Federal Student Aid Verification Process*  
Control Number ED-OIG/A09G0012

Thank you for the opportunity to respond to the draft audit report, Control Number ED-OIG/A09G0012, entitled *Department of Education's Oversight of the Free Application for Federal Student Aid Verification Process*. The purpose of the audit was to determine if the U.S. Department of Education (Department) has adequate procedures for evaluating the effectiveness of the verification process and ensuring that schools complete verification requirements. The audit covered the period of July 1, 2005 through June 30, 2006 (award year 2005-2006).

Federal Student Aid concurs with the overall scope and findings as presented in the report. The OIG has acknowledged all of the positive tools Federal Student Aid has provided for schools to ensure compliance. Federal Student Aid views the results of the OIG audit as an opportunity to further enhance tools and guidance for schools in completing the verification process, and to strengthen the effectiveness of our procedures for monitoring schools' compliance with verification requirements. Our response to the OIG's audit follows with the noted exceptions:

**FINDING 1 – Department Could Further Enhance Procedures for Ensuring Schools Complete Verification Requirements**

**OIG Recommendations, Finding 1**

- 1.1 *We recommend that the Acting Chief Operating Officer for Federal Student Aid conduct program reviews, provide technical assistance, or take other actions to ensure that the schools we identified in our May 2, 2007 memorandum have completed verification and have accurately reported the results to the Department.*

830 First St. N.E., Washington, DC 20202  
[www.FederalStudentAid.ed.gov](http://www.FederalStudentAid.ed.gov)  
1-800-4-FED-AID

---

FEDERAL STUDENT AID  START HERE. GO FURTHER.



**Federal Student Aid Response** – We agree with the recommendation. Federal Student Aid will generate reports from the Common Origination and Disbursement system (COD) to analyze data used to conduct the audit. Based on an analysis of the COD reports in conjunction with the OIG's data analysis, the appropriate action will be taken as warranted for the schools identified in the audit. This action could range from telephone calls, emails, technical assistance, off-site program reviews to on-site program reviews, depending on the results of the analysis.

- 1.2 *We recommend that the Acting Chief Operating Officer for Federal Student Aid using risk factors similar to those we described in the finding, develop MIS reports to periodically identify and monitor schools that may not have completed or accurately reported the results of their verification of FAFSAs to the Department, and provide technical assistance to those schools, conduct a program review, or take other appropriate action.*

**Federal Student Aid Response** - We agree with the recommendation. Federal Student Aid's new Integrated Partner Management System (IPM) is currently in development and includes in its module for partner risk management a verification risk indicator. IPM will be using risk factors which are similar to those described in the finding, that is, schools with a high percentage or high number of S, W, or blank verification status codes for the Pell Grant recipients selected by the CPS for verification.

Until IPM is implemented, Federal Student Aid will develop MIS reports to identify and monitor schools that may not have completed verification or accurately reported the results of the verification process.

- 1.3 *We recommend that the Acting Chief Operating Officer for Federal Student Aid require schools to report an S status to the COD system for a student whose application was selected by CPS for verification, but the verification was not completed because the student was exempt under 34 C.F.R. § 668.54(b).*

**Federal Student Aid Response** - We agree with the recommendation. Federal Student Aid will clarify the exemption requirements under 34 C.F.R. § 668.54(b). Guidance to schools will reflect the requirement that schools must report an S status in COD for students whose application was selected for verification by the CPS but not verified because of the student's exemption.

- 1.4 *We recommend that the Acting Chief Operating Officer for Federal Student Aid clarify the explanation of "optional" fields in the COD Technical Reference and review the COD Technical Reference and make any other needed revisions to ensure the guide clearly communicates required fields in the Common Record versus fields that do not require an entry for successful processing by the COD system.*

**Federal Student Aid Response** - We agree with the recommendation. Federal Student Aid will review and edit the COD Technical Reference Guide to clarify what is meant by “optional” reporting of the Verification Status Code in the submission of the Common Record. The Implementation Guide of the Technical Reference will clearly state that the reporting of a verification status code is required.

If you have any questions you may contact Kathleen Wicks at 202-377-3110 or Karen Chauvin at 202-377-4274.